From: "Robert Bailey" <Bbailey@ubsh.com> on 04/10/2006 10:00:01 AM

Subject: Interagency Concentrations in Commercial Real Estate Lending

To the person receiving responses on the above subject,

Bay Community Bank appreciates the opportunity to comment on the Agencies' Proposed Guidance entitled "Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices" (the "Guidance") published January 16, 2006 in the Federal Register.

Bay Community Bank serves its markets in the Peninsula and Tidewater regions of Virginia by providing financing for various commercial real estate purposes. We are fortunate enough to enjoy the benefits of true demand-driven real estate markets.

In our view, the Guidance is a "one-size-fits-all" solution to attempt to prevent a repeat of problems the banking industry suffered during previous real estate downturns. Unfortunately, the implication in the Guidance is that all real estate everywhere is a potential problem.

The category of commercial real estate loans is not a homogeneous one. Each of the many property types within that broad category has its own unique characteristics and therefore its own unique risks. The same type of real estate frequently performs differently in different markets and sub-markets.

Additionally, while we agree with the Guidance in distinguishing between residential development lending and income property lending, we do not understand why construction loans - every property type under construction other than land development - would be grouped with land development at the lower threshold.

We also do not understand why all commercial real estate as defined in the proposed guidance would be grouped together under one concentration (i.e., the proposed 300% concentration).

We would certainly understand separate "buckets" for residential real estate and for commercial real estate (i.e., income property), though we would better understand further granularity when it comes to accumulating related risk. However, adding these two separate categories together into one (300% threshold) category, as the Guidance proposes, creates a false concentration of related risk.

For any given bank, and particularly for community banks, any given portion of the Guidance is applicable and helpful. However, <u>every</u> portion of the Guidance applied to <u>every</u> single bank will, in our opinion, cause the very problem the regulators are trying to prevent – a real estate downturn that results in serious credit problems in bank portfolios.

Community banks will be forced to suspend any meaningful commercial real estate lending activity because of the requirements of the Guidance. The abrupt retreat of community banks from real estate lending may well cause credit crunches in markets around the country.

Even if a community bank is fortunate enough to be below the proposed 100% and 300% thresholds, the recommended reporting requirements alone will add significant, undue overhead cost to the bank.

We support the regulators' attempts to encourage heightened monitoring of commercial real estate risks, particularly during the current continued good economy. However, we believe a deft touch is required right now, so that the Guidance does not cause the very result it was drafted to prevent.

If a given bank's regulator is concerned about that bank's real estate loan portfolio, then that regulator should address the concern with that bank, not all banks.

Sincerely,

Robert L. Bailey
President
Bay Community Bank

This e-mail sent by:

Bob Bailey
President, Bay Community Bank